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23 August 1979

MEMORANDUM FOR: Director and Deputy Director, OIA

FROM : Chief, Economic Resources Division

SUBJECT :  Report on Project Challenge

1.  recommendation is not surprising. In fact, based on my conversation with him, it was a fairly predictable one. He views this as an OGCR-OER power struggle with virtue and clean living favoring OGCR and logic and efficiency favoring OER. He looks on OIA as the hired help and OIA's views as parochial and trivial.

2. I take issue with a number of  points, but my most serious objection involves a disconnect in his <sup>reasoning</sup> ~~thinking~~ regarding management of Project Challenge's last year or two of work. In an obvious effort to do what makes sense (i.e. keep energy analysis under OER), but still <sup>make</sup> ~~name~~ those he views as the good guys (OGCR) happy for awhile, he complicates matters by proposing to give overall management of Challenge's waning efforts to OGCR--a management role which has heretofore belonged not to OGCR but to ORD. If, as  convincingly argues, OER indeed clearly has the comparative advantage on Soviet energy matters and must provide substantive ~~sub~~ direction to the project, and if there indeed would be no team without the full participation of the imagery analysts, then putting OGCR in the management role at this late date for a limited and finite period of time makes absolutely no sense. The optimum management solution under Option 4 is to either leave the team in place (minus one OIA analyst) under ORD's supervision for the remaining R&D efforts, or to leave them in place but under overall OER supervision, in that

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OER is both the source of substantive direction and the user of the operational product. Putting OGCR in the chain now will merely be giving them temporary relief and will tend to institutionalize a fragmentation of the energy analysis effort, the R&D portion of which under Challenge will be winding down soon anyway.

3. I seriously question the need for two dedicated OIA analysts for Challenge's remaining work. One OIA and one NPIC analyst should be enough, in that the operational monitoring functions would be shifting to OIA - OER. R&D modeling should probably continue for a time on selected fields (more on this in the next paragraph), but the growing demands for PI work for intelligence production on energy should have priority. In this regard, ERD has major ongoing efforts in support of OER on Soviet and Chinese oil and gas fields and refineries, and I see no way to avoid some duplication of effort with Challenge work on these same subjects.

25X1 4. I question [ ] projected 2-3 years additional Challenge work. We previously understood there was about one more year of useful work. I think, it is generally agreed that the Challenge model is a very expensive way of doing business, and of doubtful cost effectiveness for any but the most important oil fields. OER needs to critically select, using cost-benefit considerations, those fields important enough to require the Challenge model versus those that can be adequately assessed by less costly means.